

Message Text

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ACTION ARA-10

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FM AMEMBASSY SANTO DOMINGO
TO SECSTATE WASHDC 299

C O N F I D E N T I A L SANTO DOMINGO 1755

FROM AMBASSADOR AND AID MISSION DIRECTOR

E.O. 11652: GDS
SUBJECT: IDB LOAN PIDAGRO II 19.5 MILLION

REF: SANTO DOMINGO 1467

1. IT APPEARS THAT THE PIDAGRO II LOAN AGREEMENT WILL SOON BE SIGNED BY THE IDB AND GODR. DURING THE PERIOD OF THE DESIGN AND NEGOTIATION OF THIS LOAN, AN ISSUE AROSE WHICH HAS SIGNIFICANCE BEYOND THIS PARTICULAR LOAN OR COUNTRY. IT INVOLVES THE ABSENCE OF AN IDB POLICY WITH RESPECT TO INTEREST RATES AND USG/IDB RELATIONSHIPS.

2. THE \$19.5 MILLION PIDAGRO II LOAN IS A SECOND PHASE OF AN INTEGRATED AGRICULTURAL PROGRAM. THE MAJOR PORTION OF LOAN FUNDS, \$16.7 MILLION, WILL PROVIDE CREDIT FOR AGRICULTURAL AND LIVESTOCK PRODUCTION PROGRAMS.

IN DEVELOPING THIS LOAN PACKAGE, THE IDB SHOWED CONCERN FOR THE FINANCIAL VIABILITY OF THE AGRICULTURAL BANK. AS AID/W AND DEPARTMENT AWARE, AID URGED THAT IN SUPPORT OF THIS GOAL, THE IDB INSIST ON MORE REALISTIC INTEREST RATES AS A MEANS OF MINIMIZING DECAPITALIZATION, AN APPROACH WHICH THIS MISSION HAD ALREADY INITIATED. (THE LLIMIT ON INTEREST
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RATES IS 8 PERCENT. AN INCREASE WOULD REQUIRE GOVERNMENTAL ACTION.) IT WAS OUR CONCERN THAT, IF THE IDB WERE TO PUT IN \$16.7 IN NEW CREDIT WITHOUT INSISTING ON INCREASED RATES, OUR EFFORTS IN THIS DIRECTION WOULD BE UNDERCUT.

WHILE THERE IS SUPPORT WITHIN CERTAIN PARTS OF THE

GODR FOR INCREASED INTEREST RATES, NO GOVERNMENTAL OFFICIAL WANTED TO BELL THE CAT -- ESPECIALLY AS ELECTION DATE IN THE DOMINICAN REPUBLIC APPROACHED. THEY MIGHT WELCOME AN IDB CONDITION TO THAT EFFECT; THEY WOULD NOT INITIATE CX.

IDB, APPARENTLY UNABLE TO ACHIEVE AGREEMENT AMONG ITS DIRECTORS REGARDING THE INTEREST RATE QUESTION, DECIDED TO ESTABLISH A MINIMUM LENDING LEVEL OF \$2,000 D.R. PESOS FOR SUB-LOANS ON THE BASIS THAT SMALLER LOANS WERE MOST COSTLY TO ADMINISTER. IN THIS MANNER, IDB COULD MAINTAIN THAT IT WAS LENDING ONLY TO THE FINANCIALLY VIABLE SECTOR OF THE AGBANK AND THEREBY ASSERT THAT IT WAS CONFORMING TO ITS POLICY OF INSISTING THAT SUBLOAN INTEREST RATES BE HIGH ENOUGH TO COVER THE COST OF INTERNATIONAL FINANCING, OPERATING COSTS, AND THE ESTABLISHMENT OF A RESERVE FUND.

3. THIS ARTIFICIAL MEANS OF "DIVIDING" THE AGBANK INTO VIABLE AND UNVIABLE SEGMENTS MAY SERVE THE PURPOSES OF THE LOAN, BUT IT SHOULD BE CLEAR THAT THE 8 PERCENT SUBLOAN INTEREST RATE IN THE DOMREP CANNOT COVER TOTAL AGBANK COSTS. THE RECENTLY PUBLISHED 1976 FINANCIAL STATEMENT OF THE AGBANK SHOWS NET PROFIT OF APPROXIMATELY \$156,000, BUT ONLY AFTER \$1.2 MILLION OF PERATING EXPENSE SUBSIDIES (CLMING FROM AID AG SECTOR LOAN I) WERE PROVIDED. IT IS DOUBTFUL THAT THE 2,000 PESO LIMIT WILL SUBSTANTIALLY IMPROVE THIS OVERALL SITUATION.

4. AFTER EXTENSIVE INTERNAL DEBATE WHICH FOCUSED ON AVAILABILITY OF CREDIT TO SMALL FARMERS (WHICH THE GODR INFORMS US IS ASSURED), GODR OFFICIALS DECIDED TO ACCEPT
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THE 2,000 PESO MINIMUM LOAN LIMIT. THE INTEREST RATE QUESTION WAS NOT RAISED.

5. DESPITE THIS SET-BACK, THE AMBASSADOR AND USAID WILL BE WORKING WITH GODR OFFICIALS AT VARIOUS LEVELS TO TRY TO ACHIEVE AN INCREASE IN INTEREST CEILING. AS INDICATED IN SANTO DOMINGO 1467, DISCUSSIONS TO THIS END HAVE ALREADY TAKEN PLACE AT THE HIGHEST LEVEL. IT IS TOO EARLY TO PREDICT THE OUTCOME.

6. IT IS OUR VIEW THAT THERE SHOULD BE SOME HARMONY BETWEEN AID AND IDB POLICY BASED ON GENERALLY THE SAME POLICY OBJECTIVES. AS IDB BECOMES THE PREDOMINANT SOURCE OF CONCESSIONAL LENDING IN THE MIDDLE INCOME COUNTRIES, IT IS EVEN MORE IMPORTANT THAT ITS POLICIES REFLECT U.S. CONCERNS TO THE EXTENT POSSIBLE. WITH RESPECT TO PIDAGRO II, IF IDB HAD COME DOWN FIRMLY FOR AN INCREASED INTEREST RATE, IT IS OUR VIEW THAT THE GODR WOULD HAVE ACCEPTED IT. WE URGE THEREFORE THAT THE ACHIEVEMENT OF THE GOAL OF RESONABLY HARMONIOUS US-IDB OBJECTIVES BE EXAMINED CLOSELY AT THE POLICY LEVEL IN WASHINGTON AND THAT,

SPECIFICALLY, PRIORITY ATTENTION BE GIVEN TO THE ABSENCE
OF AN INTEREST RATE POLICY IN THE IDB.
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